File

I.T.L. INDUSTRIES LIMITED

ANNUAL REPORT 1975

PHARMACY DISPENSING SUPPLIES AND EQUIPMENT
HIGHWAY SAFETY PRODUCTS
RETRO REFLECTIVE PRODUCTS
STANDARD DIE SETS AND ACCESSORIES
INJECTION AND COMPRESSION MOLDS

BOARD OF DIRECTORS
C.A. BELL, Q.C.
WALTER A. HADDEN
ROBERT HILL
PETER HEDGEWICK
C.W. LEONARDI, C.A.
DOUGLAS SINCLAIR
DONALD C. SUHR

OFFICERS
PETER HEDGEWICK,
Chairman
DONALD C. SUHR,
President and Chief Executive Officer
C.A. BELL, Q.C.,
Secretary
VIVIAN MAURICE,
Assistant Secretary

AUDITORS
COOPERS & LYBRAND
Windsor, Ontario

TRANSFER AGENT AND REGISTRAR
NATIONAL TRUST COMPANY LIMITED
Montreal, Toronto, Winnipeg,
Calgary, Vancouver

REPORT TO THE SHAREHOLDERS

A number of planned events have come together in 1975 that, while not producing positive current results, have established the basis for favourable future progress.

The Company's new plant in Newark, Ohio, is now ready to contribute to profits and to take full advantage of the growing U.S. market for its proprietary products. Our planned divestiture of automotive industry over-dependence has been virtually completed. Tooling emphasis has been reduced and broadened to other industrial products. As well, the consolidation of Canadian operations into the Windsor facility has produced efficiencies that augur well for the future.

1975 FINANCIAL

For the year ended November 30, 1975, sales were \$14,742,199 compared to \$24,496,600 in the prior year. As anticipated, the total sales did not keep pace with 1974 because of fewer contracts in the automotive sector.

A number of circumstances contributed to the net loss of \$2,352,963 for the year, a major one being startup costs at the Newark plant. During the year, the Company was able to finance the capital investment needed for the Newark plant on favourable terms. As well, the Company was able to make up the back debenture payments so that, for the first time in five years, these principal payments are being made on a current basis.

OPERATIONS

I.T.L. Industries, Inc.

The Company occupied its new 51,000 sq. ft. plant in Newark, Ohio, in February of last year and since that time has been completing the installation and startup of its production facilities. Although some machinery is not yet fully operational, regular production has begun on all sizes of Palm-N-Turn® caps and vials and some sizes of Med-A-Pak®. All of the operations of the Ray-O-Lite Division have now been transferred from California to Newark except for a regional sales and service office. A new proprietary product, Med-A-Counter®, was developed, tooled and put into production late in the fiscal year.

Production of roadway markers, mainly for southern United States, has kept pace with the growing demand. Refinements to the patented design, giving greater reflective visibility, have improved product performance and increased sales potential. Orders on hand now amount to approximately 25% of the prior year's total volume.

Emergency triangles for highway vehicles and reflective delineators with a multitude of uses are also in production at the Newark plant.

In fiscal 1975, I.T.L. Industries, Inc., at its Newark location, had a sales volume of over \$2-million despite not being operational for a full year and encountering relocation and startup problems, as well as facing difficult economic conditions. For the 1976 fiscal year, we anticipate that this facility will handle significantly larger volumes.

Reflex Division, Windsor

The Reflex Division, considerably contracted in scope and relocated in the Windsor complex, operated on a greatly reduced overhead which is producing the efficiencies anticipated by management.

Proprietary products made by Reflex include Palm-N-Turn® pharmaceutical caps and vials, highway safety triangles and slow moving vehicle signals. As well, the Division supplies reflective lenses for the automotive industry.

The Tool Group, Windsor

The Tool Group reduced its dependence on automotive model changeover programs by developing production machining contracts for other industries. Over the long term, this development of non-automotive business will add to the stability of the tools operations although at reduced overall sales volumes.

At the present time, the Tool Group is engaged primarily in the production of precision machine parts and components for such applications as heat exchangers and valve bodies. It is anticipated that a steady flow of similar contracts will enable the Tool Group to maintain current production and sales levels in the coming year.

Wheatley Manufacturing, Windsor

In the manufacture of die sets for the Canadian and U.S. markets, Wheatley has experienced the effects of current economic conditions with their contingent sales and profit erosion. Management at Wheatley has been reorganized and the operations tightened to maintain current operating levels into the coming year.

Wheatley has developed new items for 1976 production which will strengthen its sales effectiveness to existing customers.

PROPRIETARY PRODUCTS

Management has previously stated its intention to develop a line of proprietary products utilizing the Company's expertise and experience in non-automotive industries, particularly the retail pharmaceutical fields. A number of items are currently being supplied to markets in Canada and the United States. A brief summary indicates the potential available to the Company in this area.

Palm-N-Turn®

Palm-N-Turn® safety caps and vials continue to build markets as this government-mandated product gains consumer acceptance. The Company has established distribution patterns throughout Canada and most parts of the United States.

Large retail drug chains have chosen Palm-N-Turn® for private labelling and in some areas of the United States and the Caribbean, non-English language labelling has been tested with favourable results.

To accommodate consumers who are exempt from the mandated use of Palm-N-Turn® by reason of age or infirmity, our product is shipped with 10% additional snap-on caps so the pharmacist is not inconvenienced by having to deal with multiple suppliers and inventories of prescription containers.

Med-A-Pak®

During the year, the Company developed and put into production a new type of assembly and shipping container whereby Palm-N-Turn® vials arrive at their destination in specially designed grids which protect the vials in transit and serve the pharmacist as dispensing trays. This Med-A-Pak® system also enables the pharmacist to see at a glance the number and sizes of Palm-N-Turn® containers in his inventory. Each Med-A-Pak® shipping unit contains an equal number of Palm-N-Turn® caps and vials plus an additional supply of compatible snap-on caps.

Subsequent to year end, the production of Med-A-Pak® has been expanded in Newark to include a complete range of sizes, and has been initiated in Windsor. Med-A-Pak® has enhanced the marketability of Palm-N-Turn® and is expected to gain further widespread acceptability in the pharmaceutical trade.

Med-A-Counter®

An innovative design developed by the Company, Med-A-Counter® is a compact, counter-top unit for use in automatically counting from bulk supplies, the required number of pills on a patient's prescription. This aid to efficiency in the pharmacy, enables the pharmacist to spend more time in consultation with the customer or the doctor.

Med-A-Counter® was introduced to the trade last year, and has received good acceptance. Production began at year end and from the limited shipments made to date, repeat orders have already been received.

OUTLOOK

In the past few years, the Company has undergone substantial change to bring it successfully through a period of difficult economic conditions. Underproductive and unprofitable operations have been liquidated and the funds reinvested in proprietary products. As a result, those divisions of the Company that are devoted to proprietary items are expected to conclude the current year in a profitable position.

Management is cognizant of the efforts of all employees to bring about the significant and difficult changes that have occurred within the Company and is grateful for their cooperation and understanding.

On behalf of the Board of Directors

Donald C. Suhr, President

March 6, 1976

I.T.L. INDUSTRIES LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED NOVEMBER 30, 1975

	1975	1974
SALES	**$14,742,199**	$24,496,600
COST OF SALES (including selling, general and administrative expenses)	**15,382,888**	21,605,899
EARNINGS (LOSS) BEFORE THE FOLLOWING DEDUCTIONS	**(640,689)**	2,890,701
DEPRECIATION	**925,167**	951,538
AMORTIZATION OF FINANCING COSTS AND PATENTS	**24,994**	26,494
INTEREST ON LONG-TERM DEBT	**576,283**	579,400
OTHER INTEREST	**167,830**	214,926
	1,694,274	1,772,358
EARNINGS (LOSS) BEFORE PROVISION FOR INCOME TAXES	**(2,334,963)**	1,118,343
PROVISION FOR INCOME TAXES		
Current	**(4,500)**	180,600
Deferred	**22,500**	542,800
	18,000	723,400
NET EARNINGS (LOSS) FOR THE YEAR	**$ (2,352,963)**	$ 394,943
EARNINGS (LOSS) PER COMMON SHARE	**$ (1.56)**	$ 0.15

I.T.L. INDUSTRIES LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED NOVEMBER 30, 1975

	1975	1974
RETAINED EARNINGS — BEGINNING OF YEAR	**$ 438,626**	$ 43,683
Net earnings (loss) for the year	**(2,352,963)**	394,943
RETAINED EARNINGS (DEFICIT) — END OF YEAR	**$(1,914,337)**	$ 438,626

CONSOLIDATE

ASSETS

	1975	1974
CURRENT ASSETS		
Cash	$ 5,922	$ 84,511
Accounts receivable (note 4)	2,715,946	3,954,756
Inventories (notes 2 and 4)	2,860,451	3,401,984
Prepaid expenses and other assets	101,352	66,520
	5,683,671	7,507,771
FIXED ASSETS (note 3)	6,678,100	7,237,790
OTHER ASSETS		
Property, plant and equipment held for sale — at cost less accumulated depreciation of $207,371 (notes 3 and 6)	921,086	—
Organization and financing costs, less amounts amortized	307,708	320,702
Patents, less amounts amortized	123,768	135,768
	1,352,562	456,470
EXCESS OF COST OF SHARES OF SUBSIDIARIES OVER NET ASSETS ACQUIRED	1,167,105	1,167,105
	$14,881,438	$16,369,136

SIGNED ON BEHALF OF THE BOARD

C.A. BELL, Director

D.C. SUHR, Director

AUDITORS' REPORT

We have examined the consolidated balance sheet o
1975 and the consolidated statements of earnings, retai
ended. Our examination included a general review of the
other supporting evidence as we considered necessary i

In our opinion, these consolidated financial statem
November 30, 1975 and the results of their operations an
accordance with generally accepted accounting principle

The financial statements for the year ended Novemb
by other auditors.

January 9, 1976, except for Note 6
which is as of March 22, 1976.

ALANCE SHEET

AS AT NOVEMBER 30, 1975

LIABILITIES	1975	1974
CURRENT LIABILITIES		
Bank loan and advances (note 4)	$ 2,443,594	—
Accounts payable and accrued liabilities	1,634,481	$ 2,020,484
Income taxes	—	210,739
Current portion of long-term debt (note 6)	822,446	1,218,217
	4,900,521	3,449,440
LONG-TERM DEBT (note 6)	6,089,120	6,697,436
DEFERRED INCOME TAXES (note 5)	277,100	254,600
	11,266,741	10,401,476
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 7)		
Authorized — 163,600 preference shares with a par value of $25 each, issuable in series; 3,050,251 common shares without par value		
Issued — 44,000 6-1/2% Series A cumulative preference shares, redeemable at their par value of $25 each	1,100,000	1,100,000
49,600 6-1/2% Series B cumulative convertible preference shares, redeemable at their par value of $25 each after June 1, 1978	1,240,000	1,240,000
1,602,007 common shares	2,996,000	2,996,000
	5,336,000	5,336,000
CONTRIBUTED SURPLUS	193,034	193,034
RETAINED EARNINGS (DEFICIT)	(1,914,337)	438,626
	3,614,697	5,967,660
	$14,881,438	$16,369,136

THE SHAREHOLDERS

Industries Limited and its subsidiaries as at November 30, nings and changes in financial position for the year then nting procedures and such tests of accounting records and circumstances.

esent fairly the financial position of the companies as at hanges in their financial position for the year then ended, in ed on a basis consistent with that of the preceding year.

974, presented for comparative purposes, were examined

COOPERS & LYBRAND
Chartered Accountants.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED NOVEMBER 30, 1975

	1975	1974
WORKING CAPITAL — BEGINNING OF YEAR	**$4,058,331**	$3,764,964
FUNDS PROVIDED		
From operations		
Net earnings (loss) for the year	**(2,352,963)**	394,943
Items not affecting working capital		
Depreciation	**925,167**	951,538
Amortization	**24,994**	26,494
Deferred income taxes	**22,500**	542,800
	(1,380,302)	1,915,775
Gain on disposal of fixed assets	**243,313**	91,665
	(1,623,615)	1,824,110
Proceeds on disposal of fixed assets	**627,851**	361,049
Proceeds on assumption of long-term debt	**700,634**	—
	(295,130)	2,185,159
FUNDS APPLIED		
Purchase of fixed assets	**1,671,101**	1,310,534
Payments of long-term debt	**1,308,950**	581,258
	2,980,051	1,891,792
INCREASE (DECREASE) IN WORKING CAPITAL	**(3,275,181)**	293,367
WORKING CAPITAL — END OF YEAR	**$ 783,150**	$4,058,331

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED NOVEMBER 30, 1975

1. ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of these financial statements. The policies conform with generally accepted accounting principles and have been consistently applied.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Wheatley Manufacturing Limited and I.T.L. Industries Inc., and their subsidiaries. All significant inter-company transactions have been eliminated.

(b) Currency Translation

United States dollar amounts for current assets and liability items have been translated to Canadian dollar amounts at par.

Fixed assets, accumulated depreciation, other assets, long-term debt and other liabilities have been translated at the rates in effect when the assets were acquired and the debt incurred.

United States dollar amounts included in the statement of earnings have been translated to Canadian dollar amounts at par adjusted to reflect depreciation and amortization charges on historical dollar costs.

(c) Inventories

Inventories, other than tooling jobs-in-process, are stated at the lower of cost or net realizable value with cost being determined principally at standard which approximates first-in, first-out cost.

Tooling jobs-in-process are stated at the lower of accumulated contract costs to November 30 or contract net realizable values.

(d) Depreciation and Amortization

Allowances for depreciation and amortization are provided on a straight-line basis by charges to expense sufficient to write off the cost of the assets over their estimated useful lives. The annual rate used for each class of assets is as follows:

	%
Buildings	2-1/2
Machinery and equipment	7-1/2 to 10
Tools and dies	33-1/3

Maintenance and repairs to all fixed assets are charged to expense as incurred.

(e) Amortization of Financial Expenses, Patents and Licensing Costs

Expenses incurred by the company to obtain long-term financing, patents and licenses are being amortized in these financial statements as follows:

Financial expense	10 to 20 years
Patents and licensing costs	17 years

(f) Deferred Income Taxes

Deferred income taxes are provided upon the timing differences between amounts charged for depreciation and amortization of financial expenses for accounting and tax purposes.

2. INVENTORIES

Inventories consist of the following:

	1975 $	1974 $
Raw material	884,183	921,078
Work-in-process	940,950	1,363,004
Finished goods	1,035,318	1,117,902
	2,860,451	3,401,984

3. FIXED ASSETS

The following is a summary of fixed assets and related accumulated depreciation:

	Cost $	Accumulated depreciation $	1975 Net Book Value $	1974 Net Book Value $
Land	219,836	—	219,836	238,690
Buildings	3,156,269	617,634	2,538,635	3,172,629
Machinery and equipment	8,562,171	4,943,659	3,618,512	3,602,094
Tools and dies	774,367	473,250	301,117	224,377
	12,712,643	6,034,543	6,678,100	7,237,790

During the year, the company moved its Reflex Division from Amherstburg to Windsor. The net book value of the Amherstburg facility has been re-classified as 'Other Assets' since the company intends to sell this asset. The carrying value is not considered to exceed net realizable value.

4. BANK LOANS AND ADVANCES

Book debts and inventories have been pledged as security for bank loans and advances.

5. INCOME TAXES

The company's subsidiaries have losses of approximately $4,000,000 available to reduce their future taxable incomes. These losses expire as follows:

	Subsidiaries	
	Canadian $	U.S. $
1976	—	300,000
1977	—	800,000
1978	—	300,000
1979	—	200,000
1980	1,190,000	1,050,000
1981 and later	160,000	—
	1,350,000	2,650,000

No recognition has been given in these financial statements to future tax benefits that may result from the above losses.

A subsidiary company has an unrecorded deferred income tax liability of approximately $250,000; the liability arose from timing differences between accounting and tax depreciation that occurred prior to 1968.

6. LONG-TERM DEBT

Long-term debt consists of:

	1975 $	1974 $
6.20% Series A sinking fund debentures, maturing June 15, 1984	320,100	543,700
6-1/2% Series B sinking fund debentures, maturing December 15, 1985	213,750	338,750
8-1/2% Series C sinking fund debentures, maturing June 15, 1988	934,900	1,481,300
8% 1969 Series convertible sinking fund debentures, maturing October 1, 1988 (note 7)	3,000,000	3,000,000
8-7/16% loan, repayable $22,200 monthly maturing June, 1980.	1,131,500	1,486,875
10% first mortgage, maturing April 1, 1992 (repayable in United States dollars)	416,825	426,365
Lien notes at prime rate plus 1%, maturing 1979 (repayable in United States dollars)	536,703	—
Other long-term debt, maturing 1979	357,788	638,663
	6,911,566	7,915,653
Less: Current portion	588,046	1,218,217
	6,323,520	6,697,436

The debentures are secured by fixed and floating charges on the assets of the companies subject to a prior charge under the 8-7/16% loan by way of fixed, floating and after acquired charges against the assets of the Reflex Division of International Tools (1973) Limited and specific charges under the 10% first mortage and lien notes against assets of I.T.L. Industries Inc.

The 8-7/16% loan has a fixed, floating and after acquired charge on all other assets of International Tools (1973) Limited subject to the prior charge by the debentureholders. The loan is guaranteed by I.T.L. Industries Limited.

Coincident with the decision to vacate the Amherstburg facility of the Reflex Division referred to in note 3 above, International Tools (1973) Limited discontinued monthly payments on the 8-7/16% loan. The lender has applied $222,000 of the sum remitted by the company from the sale of certain pledged assets against the unpaid instalments. On March 22, 1976, the lender waived its present right of action arising from the company's failure to comply with the terms of its loan agreement; the company is currently negotiating revised repayment terms for the loan.

The payments required in the next five years to meet long-term debt instalments and sinking fund provisions are:

	$
1976	822,446
1977	659,015
1978	610,278
1979	611,630
1980	391,136

7. CAPITAL STOCK

COMMON SHARES

Share Purchase Warrants have been issued entitling the holders thereof to purchase 15,000 common shares of the company (subject to certain adjustments) up to June 1, 1978 at a price varying from $18 to $20 per share (subject to certain adjustments) according to the date the warrants are exercised.

Under the terms of the issue of the 8% 1969 Series convertible sinking fund debentures, each $1,000 debenture is convertible into 45-1/2 common shares on or before October 1, 1976, decreasing annually to 33 common shares on or before October 1, 1984.

151,500 shares of the unissued common shares are reserved against conversions of the 1969 Series debentures outstanding at November 30, 1975, and the exercise of the Share Purchase Warrants to purchase 15,000 common shares of the company.

PREFERENCE SHARES

The preferences, rights, conditions, restrictions, limitations and prohibitions attached to the Series A preference shares require that, commencing in 1966, the company allocate on or before the first day of March in each year an amount of $25,000 to a maximum of $100,000 as a purchase fund for the purchase of such shares for cancellation. The balance of the purchase fund is $100,000.

Each Series B preference share is convertible into 1.389 common shares on or before June 1, 1976, decreasing annually to 1.250 common shares on or before June 1, 1978.

Dividend arrears on the cumulative preference shares amount to $645,840 at November 30, 1975.

8. STATUTORY INFORMATION

	1975 $	1974 $
(a) Remuneration of directors and senior officers as defined by the Business Corporations Act (Ontario)	193,590	214,590
(b) Sales by class of business were as follows:		
Contract tools	4,984,276	9,985,659
Standard tools and dies	4,629,375	6,196,452
Contract plastic molded products — automotive	2,567,217	4,973,387
Proprietary plastic molded products	2,561,331	3,341,102
	14,742,199	24,496,600

9. ANTI-INFLATION ACT

The company is subject to restraint under the Anti-Inflation Act and Regulations on the amount of dividends, excluding arrears on cumulative preference shares, which can be declared or paid during the period from November 30, 1975 to October 13, 1976. It is not aniticipated that the company will be in violation of this legislation.

I.T.L. INDUSTRIES LIMITED

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Huron Line & Malden Road
Sandwich P.O. Box 68
Windsor, Ontario N9C 3Y8

WHEATLEY MANUFACTURING

Head Office
2590 Ouellette Avenue
Windsor, Ontario N9A 6L8

Plants
2590 Ouellette Avenue
Windsor, Ontario N9A 6L8

963 Martingrove Road
Rexdale (Toronto), Ontario M9W 4V6

Sales Offices & Warehouses
Wheatley Economy Die Sets,
2375 Dequindre,
Hazel Park, Michigan 48030

Wheatley Die Supply
760 Halpern Avenue
Dorval, Montreal, Quebec H9P 1G6

I.T.L. INDUSTRIES, INC.
P.O. Box 877
Newark, Ohio 43055

RAY-O-LITE DIVISION
P.O. Box 877
Newark, Ohio 43055

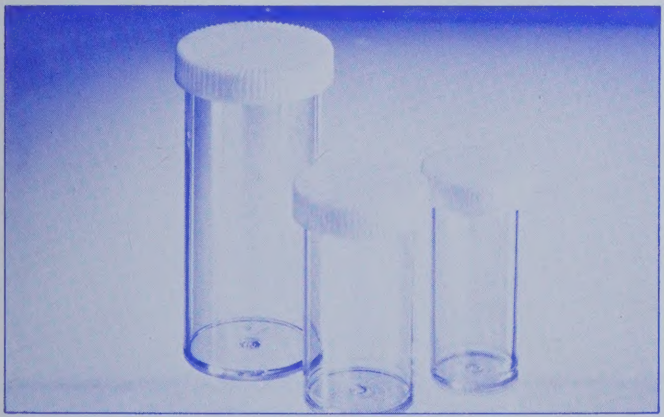
Sales Office & Warehouse
18375 Bandilier Circle
Fountain Valley, Cal. 92708

MED-A-SAFE CO.
P.O. Box 877
Newark, Ohio 43055

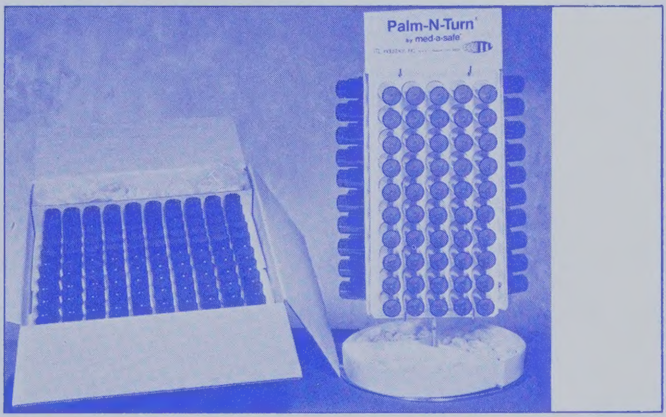
INTERNATIONAL TOOLS
Sandwich P.O. Box 68
Windsor, Ontario N9C 3Y8

REFLEX DIVISION
Sandwich P.O. Box 68
Windsor, Ontario N9C 3Y8

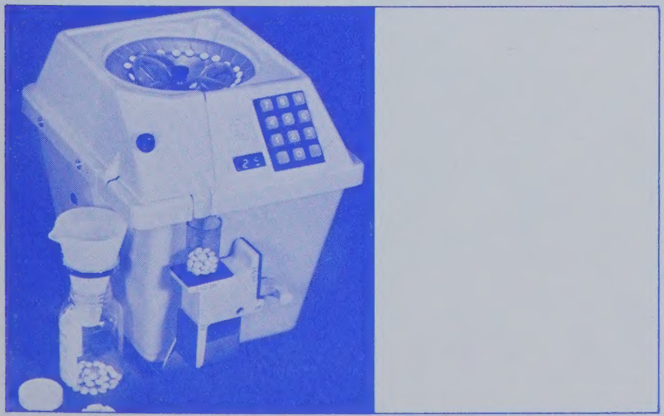
PROPRIETARY PRODUCTS



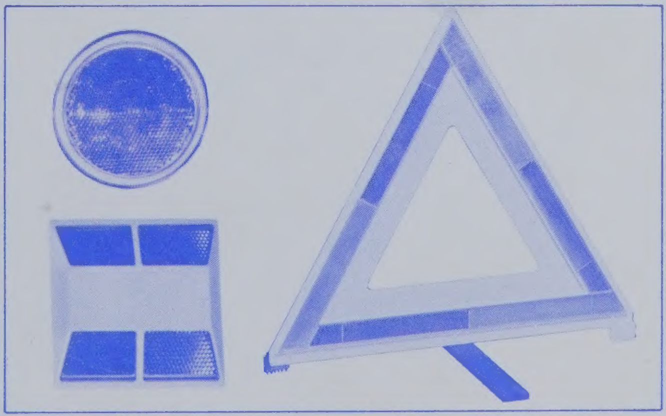
PALM-N-TURN®
Child-resistant safety closures for dry ingredient prescription drugs are mandatory in parts of Canada and the United States except under unusual circumstances. PALM-N-TURN® is available in seven popular sizes with choice of clear or amber vials.



MED-A-PAK®
Custom designed packing modules for PALM-N-TURN® shipments not only assure cleanliness in transit, but convert to efficient holding trays in the dispensary.



MED-A-COUNTER®
Automatic pill counter frees the pharmacist for other professional duties.



HIGHWAY SAFETY PRODUCTS
Highway and farm safety products include emergency reflective triangles, roadway markers and other retro reflective delineators.